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Audit Report

MAYOR'S OFFICE OF COMMUNITY DEVELOPMENT:

The Nonprofit Filipino-American Council of San Francisco, Inc. Mismanaged City Grant Funds

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Audits Division
Audit Report

MAYOR'S OFFICE OF COMMUNITY DEVELOPMENT:

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FINANCIAL AUDITS DIVISION

January 5, 2006
04024

CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

Ed Harrington
Controller

Monique Zmuda
Deputy Controller

January 5, 2006 Audit Number 04024

Dwayne Jones, Director
Mayor's Office of Community Development
25 Van Ness Ave, 7th Floor
San Francisco, CA 94102

Dear Mr. Jones:

The Office of the Controller presents its report concerning the audit of the nonprofit Filipino-American Council of San Francisco, Inc. (nonprofit). The nonprofit received city funding, under a grant with the Mayor's Office of Community Development of the City and County of San Francisco (City), to provide a job readiness and training program, and in the past has also had grants with the Department of Children, Youth and Their Families and the Department of Aging and Adult Services.

We found that the nonprofit lacks adequate financial systems and records, including adequate accounting records to support its billings to the City. We also found that the nonprofit improperly billed the City at least $27,298 under two of the three programs funded by city grants. However, because of the nonprofit's inadequate financial records, it was not possible to determine the total amount the nonprofit overcharged the City. Our audit also found that the nonprofit did not properly manage other aspects of its operations.

The response from the nonprofit is attached to this report. The Controller's Financial Audits Division will be working with the city departments and the nonprofit to follow up on the status of the recommendations made in this report.

Respectfully submitted,

Ed Harrington
Controller

cc: Trent Rhorer, Executive Director, Human Services Agency
Margaret Brodkin, Director, Department of Children, Youth and Their Families
Circe McLeod, Board President, Filipino-American Council of San Francisco

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SUMMARY

RESULTS IN BRIEF

Audit Highlights...

Our audit of the nonprofit revealed the following:

☑ ***The nonprofit lacks adequate financial systems and records.***

☑ ***The nonprofit overcharged the City.***

☑ ***The nonprofit did not properly manage other aspects of its operations.***

We performed this audit in response to letters sent to the Office of the Mayor and the Office of the Controller, questioning the use of city funds by the nonprofit Filipino-American Council of San Francisco (nonprofit). The letters also stated concerns regarding the adequacy of the nonprofit's controls over funds and the adequacy of the nonprofit's management practices. As a result of these complaints, the Controller asked the Financial Audits Division (division) to investigate the allegations, and to determine whether the nonprofit's billings to the City were accurate and in compliance with the applicable grant agreements, and whether the nonprofit used city funds in accordance with the terms of the grants. We examined grants from the Mayor's Office of Community Development (Community Development), Department of Children, Youth and Their Families (Children, Youth and Families), and the Department of Aging and Adult Services (Aging and Adult Services), including some grants that had been terminated.

Although the nonprofit's inadequate financial records prevented us from completing a full audit, our results based on the records provided to us show that the nonprofit overcharged the City and has not properly managed its operations. The nonprofit:

- Failed to provide basic financial records, such as general ledgers, financial statements, and adequate accounting records to support its billings to the City.
- Lacks sufficient accounting staff.
- Lacks necessary controls over cash receipts and disbursements.
- Made several inappropriate cash payments, including payments to a board member that were not permitted under the nonprofit's bylaws.
- Did not provide time sheets to support personnel costs billed to two programs funded by city grants.

- Overbilled the City at least $27,298 under two of the three programs funded by city grants.

- Failed to keep accurate attendance records for the participants in its city-funded employment program.

- Used an unlicensed electrician for electrical work at its senior center building, thereby failing to ensure that the electrical work complies with minimum standards of safety.

- Operated its training center with an expired license for more than five years.

- Failed to provide the minutes of any board meetings, which we requested to determine if the nonprofit held board meetings, as required.

INTRODUCTION

BACKGROUND

Established by a group of Filipino-American community leaders in 1969 to serve as an umbrella organization for Filipino associations, the Filipino-American Council of San Francisco, Inc. (nonprofit) is a California nonprofit community-based organization. The nonprofit focuses on job readiness training, nutrition services, and other support services to economically disadvantaged immigrants newly arrived from the Philippines, and other residents of San Francisco.

The nonprofit's brochure states that it operates a Senior Opportunities Services Center (senior center), which provides a subsidized meal program, recreational facilities, and resource and referral services to inform seniors in San Francisco of other available services for seniors. The nonprofit also operates the Filipino-American Employment and Training Center (employment training center) in a separate facility in the Mission District that also houses the nonprofit's small management and administrative staff. The nonprofit's employment training center offers a job readiness and training program (employment program) that focuses on skills such as computer literacy, resume writing, and job interview techniques, and also provides referral and other services. City College of San Francisco (City College) currently provides an on-site instructor for noncredit City College classes in computer applications, office technology, and word processing. The nonprofit's director stated that participants in the employment program are required to register in the noncredit classes.

In recent years, the nonprofit has received funding for its programs from various sources, including the Mayor's Office of Community Development (Community Development), Department of Children, Youth and Their Families (Children, Youth and Families), and the Department of Aging and Adult Services (Aging and Adult Services), which is now part of the Human Services Agency (Human Services). For fiscal year 2002-03, the nonprofit received grants totaling $264,508 from these three city departments.[1]

[1] The term of the grant agreement with Children, Youth and Families, which funded the nonprofit's Filipino-American Youth Empowerment Program (youth program) started on or after March 2002 and ended effective December 2002.

For fiscal year 2003-04, the nonprofit received grants totaling $165,931 from Community Development and Aging and Adult Services. The Community Development grant had a budgeted amount of $50,000, and provided funding for job training and placement services for the nonprofit's employment program. The source of this funding was a grant between the City and the United States Department of Housing and Urban Development (HUD). The grant from Aging and Adult Services, as amended, was for $115,931, including $6,858 in United States Department of Agriculture (USDA) funding, to provide funding for an on-site and home-delivered meal program and nutrition education at the nonprofit's senior center.

In July 2003, Aging and Adult Services made its 2003-04 funding recommendation contingent on the nonprofit passing a six-month probation period, and consequently terminated its grant with the nonprofit effective January 2004. Explaining its decision to terminate the grant, Aging and Adult Services staff stated that the nonprofit did not meet all of the requirements necessary to successfully complete its probation, was not able to stabilize its operation, and did not have consistent leadership from its board. The final probation assessment report completed by the Office on the Aging (OOA) of the Department of Aging and Adult Services stated that the OOA was still attempting to clarify the status of the nonprofit's efforts to recruit and hire an executive director, and that the nonprofit had not been providing health benefits to paid employees as required.

For the 2004-05 fiscal year, Community Development awarded the nonprofit its sole remaining city grant. As in the previous year, this grant had a budgeted amount of $50,000 to fund job training and placement services at the nonprofit's employment training center.

In October 2004, the Office of the Mayor received a letter, signed by a number of individuals, stating that questions had been raised regarding the legality of some of the nonprofit's expenditures and the adequacy of the nonprofit's controls over funds. The Office of the Controller also received a more detailed letter describing various concerns regarding the operations of the nonprofit and its use of city funds. As a result of these complaints, the Controller asked the Financial Audits Division (division) to conduct an audit to determine whether the nonprofit's requests for reimbursements from the City complied with the applicable grants, and whether the nonprofit used city funds in accordance with the terms of the grants.

SCOPE AND METHODOLOGY

The purpose of the division's review was to determine whether the nonprofit's requests for reimbursements from the City for costs from July 1, 2002, through June 30, 2004, were accurate and in compliance with the applicable grants, and whether the nonprofit used city funds in accordance with the terms of the grants. After discussing the review with representatives of Community Development, Children, Youth and Families, and Human Services, we chose to examine grants from each of the three departments.

To conduct the financial review, we interviewed key personnel from the nonprofit and from Community Development, Children, Youth and Families, and Human Services. We also reviewed the applicable terms of the nonprofit's grants with the City and various program and financial records, including payroll records, bank statements, and expense vouchers. We evaluated whether the nonprofit had adequate financial and management systems to ensure that it complied with the terms of its grants with the City.

The division performed a detailed examination of invoices that the nonprofit submitted to the City for reimbursement by examining, on a sample basis, the financial records and documentation the nonprofit maintained in support of the invoiced amounts. However, the nonprofit did not have, or make available to us, all of the financial statements, general ledgers, check registers, bank statements, and supporting documentation that we requested to complete the review.

We also conducted a limited review of public records, including corporate records available from the California Secretary of State and licensing records available from the California Department of Consumer Affairs, and performed other steps we considered necessary in order to investigate issues identified during the audit.

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AUDIT RESULTS

THE NONPROFIT LACKS ADEQUATE FINANCIAL SYSTEMS AND RECORDS

The Filipino-American Council of San Francisco, Inc. (nonprofit) did not have, or make available to us, all of the financial records that we requested to complete our review. The nonprofit's failure to do so results from a lack of adequate financial systems, records, and accounting expertise, in addition to its failure to fully cooperate with our audit. We also identified areas in which the nonprofit lacks key financial procedures and controls.

The Nonprofit Could Not Provide Basic Financial Records and Lacks Sufficient Accounting Staff

The nonprofit failed to provide many of the records we requested prior to and during our audit.

The nonprofit's grants with the City during the audit period required the nonprofit to maintain accurate financial books and accounting records for a minimum of either four or five years after the final payment or the completion of any final audit, whichever is later. Required financial records include invoices, canceled checks, payroll records, attendance and time records, and any other documentation for costs that have been reimbursed, as well as tax returns, financial statements, and other financial information. The grants also provide the City access to all the nonprofit's books and records during the agreement's term and for a minimum of four or five years following the expiration of the term.

The nonprofit failed to provide many of the books and records we requested prior to and during our audit. For example, the nonprofit failed to provide financial statements, general ledgers, and tax returns, and only partially provided records such as bank statements and supporting records for expenses incurred. Also, the nonprofit failed to provide bank reconciliations. Therefore, we could not determine if the nonprofit had performed bank reconciliations, as required by sound business practices. Because the nonprofit did not provide requested documents, we were unable to perform a comprehensive audit.

We asked to interview the nonprofit's accountant regarding the nonprofit's accounting practices and records. The nonprofit's director stated that the accountant was not available for us to

interview because she was busy during the tax season. However, the director told us that she had given the accountant data to enter into the accounting system. In June 2005, we again asked to interview the accountant. However, the director did not provide us information to contact and interview the accountant. Based on the list of staff provided by the nonprofit's director, the accountant is not an employee of the nonprofit. We did interview the nonprofit's part-time bookkeeper. In response to our inquiries regarding the nonprofit's accounting records and practices, the bookkeeper stated that she primarily performs accounts payable and billing functions and does not maintain the general ledger. She stated that she has very limited knowledge of computer programs commonly used for bookkeeping, such as Microsoft Excel, and she doesn't know how to use the nonprofit's QuickBooks software to perform accounting functions such as posting general ledger entries.

The Audit Identified Unsupported Cash Payments

The nonprofit failed to provide all the bank account records we requested such as bank statements and bank reconciliations. However, we were able to identify several cash payments that did not comply with the nonprofit's bylaws or sound business practices. For example, we found that the nonprofit issued two checks in 2003 to a board member. Each check was for $500, and the nonprofit's records indicate that the payments were for honorariums. However, the nonprofit's bylaws provided by the director, which were unsigned and undated, state that its directors shall serve without compensation, except that they shall be reimbursed actual expenses incurred in the performance of tasks assigned them by the board. We asked the director the reason for the two honorariums totaling $1,000 paid to the board member. The director, however, chose not to respond to our inquiry.

We also found documentation of six $1,000 payments, for a total of $6,000, to an individual who, according to a former executive director of the nonprofit, is a relative of the board member who received the honorariums. The documentation included expense voucher forms and copies of issued checks, but did not include cancelled checks or copies of cancelled checks. The nonprofit billed Children, Youth and Families for this $6,000 as consultant services for the period July 2002, through December 2002. However, the nonprofit's brief written agreement with this individual did not adequately describe the services to be performed. The agreement only described the services as services in the area of organization development in various management

activities covering board development, program development and fiscal management. The nonprofit's grant with Children, Youth and Families did not list these types of consultant services in the grant budget. As discussed later in this report, the $6,000 in payments for consultant services should be disallowed.

The Nonprofit Lacks Necessary Procedures and Controls Over Cash

The nonprofit lacks adequate controls over cash disbursements.

We found that the nonprofit lacks adequate controls over cash disbursements. The by-laws of the nonprofit furnished by the director require two authorized signatures for all checks and drafts, including the signatures of the treasurer and the president or the vice president of the corporation. However, the nonprofit's records show that the nonprofit's director signed some checks for program and operating costs such as salaries, office supplies, and telephone charges. The director was the only signatory for some of these checks, and some of the checks were not pre-numbered. Dual signatures and pre-numbered checks are basic controls to ensure that cash disbursements are appropriate and properly authorized. We asked the director several times during the audit to provide minutes of meetings of the board of directors, so that we could determine if board approval was received for these transactions. However, we had not received any board meeting minutes as of October 12, 2005.

We also found weaknesses in controls over cash receipts. For our review of the nonprofit's on-site and home-delivered meal program, which received funding under a grant with Aging and Adult Services, we selected August 2003 as a sample month and performed detailed testing of transactions for that month. For August 2003, the nonprofit recorded $1,298 in voluntary cash donations collected for daily lunch meals served at its senior center and for home-delivered meals. Although the log sheet used by the nonprofit indicated that donations were to be deposited into a specified bank account, we were not able to verify that the amounts had been deposited. The August 2003 bank statement for the specified account does not reflect any deposits. We asked the director to clarify if the nonprofit deposited the cash donations into its bank account. The director, however, chose not to respond to our inquiry, and we could not determine from available bank records if the cash donations were deposited into the nonprofit's bank accounts. Accurate recording and prompt deposit of cash receipts are necessary controls to ensure that all cash receipts are properly accounted for. Without adequate controls over cash

disbursements and cash receipts, we could not ensure that the nonprofit properly administered city grant funds.

The Audit Could Not Determine if the Nonprofit Properly Withheld and Paid Payroll Taxes

The United States Internal Revenue Service and the State of California require employers to withhold and remit payroll taxes and file quarterly payroll tax returns. However, we could not determine whether the nonprofit always paid required payroll taxes and filed the required tax returns, because the nonprofit failed to provide all the payroll tax returns and other records we requested. However, our audit was able to identify cash payments to employees from which the nonprofit failed to withhold any payroll taxes.

The nonprofit made cash payments to its employees without withholding payroll taxes, as required by the IRS.

Our review of the nonprofit's on-site and home-delivered meal program, funded by Aging and Adult Services, identified six payments totaling $6,260 from which the nonprofit withheld no payroll taxes. The payments included a $2,000 payment to an employee for partial settlement of unused vacation, an additional $2,320 payment to the same employee in lieu of vacation, and several payments of differing amounts for bonuses to other employees and for what the documentation referred to as extra services.

As discussed in an earlier section in this report, the nonprofit did not provide all the documents required for this audit, and we could not determine the total amount of cash payments billed under the grant with Aging and Adult Services. Failure to withhold and pay required payroll taxes exposes the nonprofit to penalties and tax liabilities.

The Nonprofit Did Not Provide Time Sheets To Support Personnel Costs Billed to the City

Our audit found that the nonprofit routinely billed the City for amounts in grant budgets for personnel costs, including salaries, wages, and fringe benefits, but did not always maintain timesheets or other records to support the hours and amounts billed. The nonprofit did not provide timesheets or other records which could support personnel costs billed to the youth program and employment program. The documentation the nonprofit did submit to support the amounts it billed was not adequate to demonstrate

that the nonprofit only billed the City for program costs it actually incurred and which were allowable under the terms of its grants.

The Nonprofit Failed to Allocate Appropriately Its Joint or Shared Costs

We found that the nonprofit also billed the City for amounts in the grant budgets for other costs, and did not employ acceptable methodologies for allocating joint or shared costs of programs to the related grants. For example, we reviewed the nonprofit's employment program and youth program, which received funding under grants with Community Development and Children, Youth and Families. We selected the period from July 2002, through December 2002 as a sample period and performed detailed testing of transactions for that period. We found that the nonprofit paid $1,300 in office rent each month during this period, and each month billed Children, Youth and Families and Community Development 50 percent of this amount, or $650. This practice was not adequate to ensure that the nonprofit billed each grant only for program costs it actually incurred and which were allowable under the terms of each grant.

Office of Management and Budget (OMB) Circular A-122, *Cost Principles for Non-Profit Organizations*, establishes principles for determining costs of grants, contracts, and other agreements with non-profit organizations. Circular A-122 defines direct and indirect costs, and provides guidelines for identifying costs considered direct costs for a particular program, and for allocating indirect costs among different programs. Because the nonprofit's grant with Community Development provides for distributing, to the nonprofit, funding provided to the City by the United States Department of Housing and Urban Development, the agreement states that the City will distribute these funds to the nonprofit in accordance with the provisions of Circular A-122. We found that the nonprofit's procedures for allocating joint or shared costs failed to meet these requirements.

THE NONPROFIT OVERCHARGED THE CITY

Although the nonprofit lacked adequate financial systems and records, and failed to provide all the records we requested to complete the audit, we were able to substantiate allegations that the nonprofit overcharged the City.

From July 1, 2002, through June 30, 2004, the nonprofit improperly billed the City at least $27,298 under two of the three programs funded by city grants. This amount includes $21,298 in personnel costs that the nonprofit billed Children, Youth and Families and Community Development in excess of the costs it actually paid, and $6,000 that the nonprofit billed Children, Youth and Families for consultant services for the period July 2002, through December 2002. As discussed in a prior section of this report, without additional financial records, we could not determine if there are additional amounts the nonprofit overcharged the City.

TABLE 1

Filipino-American Council of San Francisco, Inc.
Grant Funding from City Departments

	Mayor's Office of Community Development		Department of Children, Youth and Their Families[1]		Department of Aging and Adult Services[2]		Total Amounts	
Period Covered	Budgeted Amount	Paid Amount	Budgeted Amount	Paid Amount	Budgeted Amount	Paid Amount	Budgeted Amount	Paid Amount
July 1, 2002, Through June 30, 2003	$50,000	$50,000	$66,865	$57,902	$147,643	$144,981	$264,508	$252,883
July 1, 2003, Through June 30, 2004	50,000	50,000	-	-	115,931	64,388	165,931	114,388
July 1, 2004, Through June 30, 2005	50,000	50,000	-	-	-	-	50,000	50,000
Total	**$150,000**	**$150,000**	**$66,865**	**$57,902**	**$263,574**	**$209,369**	**$480,439**	**$417,271**

1. The term of the grant with Children, Youth and Families was on or after March 1, 2002, through December 31, 2002.

2. Aging and Adult Services terminated its grant with the nonprofit effective January 16, 2004.

The Nonprofit Billed the City for Personnel Costs That It Had Not Paid

The nonprofit billed the City $21,298 for personnel costs that it had not paid.

During the period July 2002, through December 2002, the nonprofit billed Children, Youth and Families and Community Development $34,886 in personnel costs for three staff members billed under the youth program and the employment program. However, our review of the nonprofit's bank statements showed that payroll checks representing $21,298 of these billings had not cleared the nonprofit's bank as of December 31, 2002. Although it is possible that some of these checks may have cleared after

December 31, 2002, we were not able to review later bank statements to determine this, because the nonprofit did not provide them. We asked the director why these payroll checks were not cashed. The director, however, chose not to respond to our inquiry. We found that the nonprofit intentionally billed the City for personnel costs that it had not actually paid during the period for which they were billed, and that the $21,298 in billed personnel costs should be disallowed.

As discussed in the previous section of this report, the nonprofit did not provide timesheets or other records to support personnel costs. We were therefore not able to determine how much of the remaining total billed amount was allowable under the terms of the grants.

TABLE 2

Filipino-American Council of San Francisco, Inc.
Personnel Costs Billed for Employment and Youth Programs
July 1, 2002, Through December 31, 2002

Personnel	Actual Amounts Paid by the Nonprofit	Billed the Employment Program	Billed the Youth Program	Total Billed to the City	Over Billings by the Nonprofit
Program Director	$7,234	$10,075	$9,286	$19,361	$12,127
Program Coordinator	6,054	7,852	7,223	15,075	9,021
Bookkeeper	300	450	-	450	150
Total	**$13,588**	**$18,377**	**$16,509**	**$34,886**	**$21,298**

The Nonprofit Also Billed the City for Consultant Services Costs That It Had Not Paid

As discussed in the previous section, we found expense vouchers for six $1,000 payments, for a total of $6,000, to a relative of one of the nonprofit's board members. The nonprofit billed Children, Youth and Families for this $6,000 as consultant services for the period July 2002, through December 2002. However, the nonprofit's brief written agreement with this individual did not adequately describe the services to be performed. The agreement only described the work as services in the area of organization development in various management activities covering board development, program development and fiscal management. The nonprofit's grant with Children, Youth and Families did not list these types of consultant services in the grant budget. Furthermore,

the grant states that all expenses must be paid by the nonprofit prior to the submission of monthly billings. Our review of the nonprofit's bank statements showed that these checks had also not cleared the nonprofit's bank as of December 31, 2002. We asked the director to clarify if the bank cleared these six checks. The director, however, chose not to respond to our inquiry.

THE NONPROFIT HAS NOT PROPERLY MANAGED ITS OPERATIONS

In addition to inadequate financial systems and records, we identified other aspects of the nonprofit's operations that were not properly managed. For example, the nonprofit failed to maintain accurate attendance records for the employment program, and failed to adequately ensure the safety of the seniors and others who use its senior center building because it used an unlicensed contractor to perform electrical work at the building and did not obtain necessary permits. The nonprofit also failed to maintain a required vocational license for its employment training center. Finally, the nonprofit did not provide us board meeting minutes and we were unable to determine if the nonprofit held regular board meetings, as required.

The Nonprofit Did Not Maintain Accurate Attendance Records for the Employment Program

The nonprofit's grant with Community Development requires the nonprofit to provide training in job readiness skills to 30 participants during the term of the grant, with 10 participants for each four-month period. City College of San Francisco currently provides an on-site instructor at the nonprofit's employment training center, so that the nonprofit's employment program can provide noncredit City College classes in computer applications, office technology, and word processing. We found that the nonprofit did not maintain complete and accurate attendance records for the employment program. Furthermore, the attendance records maintained by the City College instructor for the noncredit classes were improperly completed in advance. As a result, we could not conclusively determine that the nonprofit's employment program met grant requirements for the number of participants. The scope of our audit did not include the nonprofit's compliance with other grant requirements, such as job placement and job retention activities.

Attendance records for the noncredit classes were improperly completed in advance.

For our review of employment program attendance records, we selected February 2005 as a sample month and performed a detailed review of daily and monthly attendance records for that month. For the 10 participants in the employment program for the month, we found 20 instances in which participants did not sign out on daily attendance records, and 31 instances in which participants did not initial daily attendance records to document their attendance.

We also found discrepancies between the attendance records maintained by the nonprofit and the attendance records maintained by the City College instructor. When we compared these two sets of records for a two week period for the 10 participants, we found 17 instances in which the attendance of participants was recorded in the City College records, but not in the non-profit's daily attendance records. The City College instructor we spoke to stated that, in order to save time, she had asked participants to sign in for all of the 10 days on the 2-week City College attendance rosters in advance. We found this practice to be an unacceptable method for keeping attendance records.

The Nonprofit Used an Unlicensed Electrician For Electrical Work at Its Senior Center, And Failed to Obtain Required City Permits

The nonprofit paid an unlicensed individual for electrical work at its senior center, and failed to obtain required permits.

The Contractors State License Board of the California Department of Consumer Affairs (state licensing board) regulates the construction industry and requires licensing for contractors, including those doing electrical work. The San Francisco Department of Building Inspection (DBI) requires electrical permits before alterations, extensions, or additions may be made to electrical installations, unless the work meets certain criteria and is therefore considered exempt from the permit requirement.

In fiscal year 1987-88, the California Department of Aging granted the nonprofit $250,000 for the acquisition and renovation of a building in the Mission District to be used as a senior center. Between July and November 2003, the nonprofit paid a total of $7,282 to an individual for the upgrade of electrical systems in the senior center building owned by the nonprofit. The individual was not a licensed contractor, as required by the state licensing board, and a senior electrical inspector with the DBI stated to us that DBI did not issue any permits for this work. We found that the nonprofit's use of an unlicensed contractor, and the failure to obtain the necessary permits, failed to ensure that the electrical work complies with minimum standards of safety.

The Nonprofit Operated its Employment Program With An Expired License for More Than Five Years

The Bureau for Private Postsecondary & Vocational Education of the California Department of Consumer Affairs (bureau) regulates private postsecondary schools such as Filipino-American Employment and Training Center, the nonprofit's employment training center in the Mission District. According to an education specialist of the bureau, the nonprofit's license for operating the training center, as required by the bureau, had expired on December 31, 1999. She also stated that the nonprofit was in re-approval process with the bureau and that the nonprofit retained its approval to operate according to law. We asked the director the date the nonprofit applied for renewal of the license for the employment training center. The director, however, chose not to respond to our inquiry. According to the education specialist, the nonprofit's reapproval application was submitted to the bureau on January 8, 2004. Although the nonprofit was issued a current license effective March 24, 2005, the nonprofit should have maintained a current license at all times to ensure that the bureau's educational standards were maintained and that the students' interests were protected.

The Nonprofit Failed to Provide Minutes of its Board Meetings

Because the nonprofit is a California nonprofit corporation, it is required to comply with the Non-Profit Corporation Law of the State of California and other applicable requirements pertaining to corporate governance. These requirements include holding regular meetings of the nonprofit's board of directors, and maintaining minutes of those meetings. Prior to and during the audit, we asked to review copies of board meeting minutes. However, the nonprofit failed to provide or make available the minutes of any board meetings. We were therefore unable to determine if the nonprofit held board meetings and documented the meetings, as required.

RECOMMENDATIONS

To ensure that the nonprofit's requests for reimbursements from the City are accurate and in compliance with the applicable grants, the Mayor's Office of Community Development should do the following:

- Suspend any current and future grants.

- Require corrective actions to address the recommendations made above as a condition for continuing any grant funding for the nonprofit.
- Recoup $27,298 in overcharges identified by this audit.
- Work with the Department of Children, Youth and Their Families, the other department for which overcharges by the nonprofit were identified, to determine the appropriate division of recovered amounts between Community Development and Children, Youth, and Families.

To ensure that Filipino-American Council of San Francisco, Inc. (nonprofit) maintains adequate financial systems and records, the nonprofit should take the following steps:

- Engage the services of a qualified accountant to complete entries to the general ledger, starting with the fiscal year ending June 30, 2002, and including all periods to the present.
- Retain the accountant to maintain the financial books and records of the nonprofit and ensure timely preparation of financial statements.
- Institute adequate procedures and controls over cash receipts and disbursements, and identify and collect any improper cash payments.
- Review its records to identify any payroll taxes it did not pay, and work with federal and state agencies to determine all interests and penalties due.
- Maintain time sheets to support program personnel expenses, including amounts billed under city grants.
- Institute acceptable procedures for allocating joint or shared costs of programs and correctly charging them to the related grants.
- Keep complete and accurate records and documentation related to program expenses, including support for amounts billed under city grants.

To improve management of its operations, the nonprofit should do the following:

- Maintain complete and accurate attendance records for the employment program.

- Require City College to maintain accurate records for class attendance, and to discontinue the practice of having participants sign in on attendance rosters in advance.
- Have the electrical systems at the senior center inspected by the City, and obtain any required permits or approvals.
- Maintain current licensing for the employment program at all times.
- Hold regular board meetings and document the meetings, as required.

We conducted this review according to the standards established by the Institute of Internal Auditors. We limited our review to those areas specified in audit scope section of this report.

Staff: Robert Tarsia, Financial Audit Manager
Lorita Chung

FILIPINO AMERICAN COUNCIL OF SAN FRANCISCO

New Immigrants and Seniors Services
3416 19th Street, San Francisco, CA 94103, Tel. 415.626.0773

Dec. 27, 2005

Mr. Robert Tarsia
Financial Audit Manager
Office of the Controller
City and County of San Francisco

Dear Mr. Tarsia:

We are in receipt of the Audit Report and we truly appreciate your teams' efforts in assessing the condition of the FilAm Council. There were some aspects in the report that we are already aware of and have done corrective measures, and some issues that we only have come across now. We acknowledge some omissions on the present Board's part but other problems came about long before our time. May we put in perspective that most of the present board officers and members were only installed in February 2004, when the Council was already floundering. These are composed of dedicated and hardy members of the community who honestly feel that there's still hope in correcting the flaws in the system and this respected institution can still find its bearing when given the chance.

Due to the severity of the report, we would like to answer all the issues point by point, however, due to time constraints, with the holidays, and the Board Secretary out of the country, we would like to request that we be given a little leeway to answer the other issues. This letter will try to answer those that we readily have answers to.

We have consolidated all our services at our 19th Street head office. Since July of this year, we have closed our 16th Street extension office and temporarily suspended our Training and Employment program. We have since terminated the services of the Program Director, Norma Tecson. The Program Coordinator, Josie Manalo, still assists us on a part time pro bono basis and the bookkeeper, Dolores Maghari, is no longer in our employ.

Since terminating Mrs. Tecson, we found out to our dismay and disappointment that she did the Council a great injustice by withholding important documents, and misleading Board members from the actual position and occurrences at the training Center. We believe that Mrs. Tecson willfully withheld incriminating documents that point to her incompetence, and still have in her possession, if she has not destroyed them yet, other missing documents needed to complete your audit and even our own internal review. We trusted Norma Tecson and thought we could depend on her to supply all the needed documentation for the audit. She would always tell us that she has submitted everything except the financial statement. We only found out that we could not

complete it because she misplaced or lost the financial statement that was given to her by the former bookkeeper, Alma Animo.

We are at present still putting our books and documents together, reconciling bank statements and financial records. Thereto, it was only after interviewing past staff members that we were able to reconstruct who were the persons responsible for specific instances your audit referred to.

The following is the response to several issues mentioned in the Audit Summary. These in no way substitutes all the documents needed to satisfy the audit and it's recommendations. We will submit all the documents Norma Tecson failed to submit to the Audit team at the soonest possible time.

- Failed to provide basic financial records, such as general ledgers, financial statements and adequate accounting records to support its billings to the City.

  We are reconstructing our records because Norma Tecson failed to submit or surrender to the Board any of the financial records under her care.

- Lacks sufficient accounting staff.

  We have hired an accountant, Mr. Paul Briones, to reconcile whatever records we have in order to satisfy all accounting procedures, including IRS issues.

- Lacks necessary control over cash receipts and disbursements.

  Although the Training Center had its accounting problems, the Senior Center's accounting procedures were in order. The Board was not aware that Ms. Tecson was signing checks other than those issued by the Board Treasurer and President, the two officers who were authorized to sign pre-numbered Council checks. This is something that we have to ask Ms. Tecson to explain in full.

- Made several inappropriate cash payments, including payments to a board member that were not permitted under the nonprofit's bylaws.

  Morgan Benedicto, the referred to Board Member, offered to act as interim executive director of the Council when it found itself sans one and needed such an executive immediately. Mr. Benedicto resigned from the Board before he was appointed acting ED (Executive Director) He requested $500 every two weeks as compensation for transportation and miscellaneous expenses. The Board then believed it was generous of Mr. Benedicto to offer his services for such a small stipend.

- Did not provide time sheets to support personnel costs billed to two programs funded by city grants.

This is still under review. These are the same records that we have been requesting from Ms. Tecson to surrender to the board, to help us in our efforts to reconcile all pertinent records related to the operation of the Training Center.

- Overbilled the City at least $27,298 under two of the three programs funded by city grants.

  On the $6,000 in question: The written agreement with the FilAm council and the recipient of the $6,000 payment failed to include that she was to perform other services for the youth in other areas such as tutorial in English composition and ESL. We also believe that Norma Tecson requested DCYF to allow her to use the funds for capacity building, board development and fiscal management. She was subsequently given a verbal approval thus the $6000 was released to the training program.

  On the $21,298: The Board was not aware of the circumstances that the checks that were issued to staff members were not being cashed. But we hope to find the answers after the reconciliation of our records by our new accountant.

- Failed to keep accurate attendance record for the participants in the city-funded employment program.

  It is our belief that there are ample records for attendance which were not submitted by Ms. Tecson for the Audit. Although, there were instances that students failed to sign in, in spite of the instructions to do so according to the program coordinator. On many occasions, either the students forgot to do so or the staff were busy with other chores and failed to monitor the sign-in sheet.

  The Board had no knowledge of the City College instructor's unacceptable manner of getting her students signature way in advance as proof of their actual daily attendance. Although, Ms. Tecson should have been able to catch it were she diligent in doing her job.

- Used an unlicensed electrician for electrical work at its senior center building, thereby failing to ensure that the electrical work complies with minimum standards of safety.

  The person in charged to hire an electrician did not inform the Board that the contractor was unlicensed. The Board has now hired a licensed electrician to check what has been done. And to make sure that it is in accordance with the code.

- Operated its training center with an expired license for more than five years.

  Norma Tecson, the program director, misinformed the board that the licenses for operating the training center were current.

- Failed to provide the minutes of any board meetings, which we requested to determine if the nonprofit held board meetings, as required.

  Board Secretary sent copies of the Board minutes to Norma Tecson for safe keeping. Unfortunately to date the same has not been surrendered to us to comply with the requirements of the audit. But we will try to extract it from her but in the meantime we are trying to recover whatever minutes we have that is still on file with our Board Secretary, who, however, is out of the country.

  During the course of our interview with former Program Coordinator, Josie Manalo, we were informed that the previous Program Director, Marivic Blanco, cleared out her desk sometime in January 2001 and might have thrown many important documents due to her temperamental behavior and lack of respect for the institution she worked for.

The FilAm Council has been serving the Mission District community for more than 35 years honorably and with dedication. It has given needed services to the underserved members of the community and are much appreciated by these citizens who are impacted by its presence. The new Board members are doing their best to correct the deficiencies of the past to get the Council back on track. We are desirous in getting its programs in full swing and will cooperate fully with the City and the Audit team to satisfy all necessary documents and requirements to get the Council in good standing once again.

We pray for your understanding and hope that you will give the Board more time to submit to you all the documents that were not submitted by Norma Tecson.

Thank you.

Sincerely,

Circe S. McLeod

Circe S. McLeod
President

MAYOR'S OFFICE OF COMMUNITY DEVELOPMENT RESPONSE TO THE AUDIT

Mayor's Office Of Community Development
City & County Of San Francisco

Gavin Newsom
Mayor

Dwayne Jones
Director

December 9, 2005

Mr. Ed Harrington
Office of the Controller
City and County of San Francisco
City Hall, Room 476

Having reviewed the audit of the Filipino-American Council of San Francisco, Inc., ("Fil-Am Council") performed by the Office of the Controller of the City and County of San Francisco, the Mayor's Office of Community Development ("MOCD") has the following responses:

1. MOCD agrees to suspend any current and future grants to the Fil-Am Council.
2. MOCD agrees to require corrective actions to address the audit's recommendations as a condition for continuing any grant funding for the nonprofit, including but not limited to all recommendations issued by the Controller to the Fil-Am Council, found on page 19 of the audit.
3. MOCD agrees to work in conjunction with the Controller's office and the Department of Children, Youth and their Families ("DCYF") to recoup the $21,298 in personnel costs that should be disallowed for the period of July 2002 through December 2002.
4. MOCD agrees to work with DCYF to determine the appropriate division of the $21,298 in recovered amounts between MOCD and DCYF.
5. MOCD agrees to support DCYF in its recovery of the $6000 that was inappropriately billed to DCYF for consultant services costs from July 2002 through December 2002.

Thank you for inviting our response to your draft audit. Please free to contact me at 252-3129 with any questions you might have regarding this response.

Sincerely,

Fred Blackwell
Deputy Director

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cc: Mayor
Board of Supervisors
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